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POLICY-BASED LENDING PROGRAMS IN THE PHILIPPINES

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INTRODUCTION

Although the government has been gradually deregulating the financial markets with moves such as the liberalization of bank entry and branching and, more recently, the liberalization of the entry and scope of operations of foreign banks, it continues to directly intervene in the credit markets by maintaining several special credit programs. In fact, the list of special credit programs for agriculture and small and medium industries remains long (Table 1). Interestingly, a significant number of them were introduced during the last six years when the government was supposed to pursue its stated policy of rationalizing and consolidating various government-initiated special credit programs.

The features of the existing special programs are considerably different from those of previous programs. For one, the Central Bank is no longer involved in managing special credit programs. This responsibility has been transferred to the relevant government financial institutions, i.e., agricultural credit programs to the Land Bank of the Philippines (LBP) and industrial credit programs to the Development Bank of the Philippines (DBP). For another, lending conduits are now more varied than before, and they include almost all rural financial institutions and nonfinancial institutions, specifically nongovernmental organizations (NGOs). Lastly, the lending rates to conduits and the relending rates charged by conduits to end-users are now freely determined by the market.

TABLE 1
Profiles of Credit, Guarantee and Insurance Programs

1. LAND BANK OF THE PHILIPPINES (LBP)

- Integrated Rural Financing (IRF) Program
- Agricultural Loan Fund (ALF) Project
- Countryside Loan Fund (CLF)
- The Small and Medium Industry Loan Program:
  A Land Bank-SSS Partnership (SMILP)
- Financial Incentives for Economic Livelihood Development Scheme
  for Small Coconut Farmers' Organizations (FIELDS-SCFO):
  A PCA-LBP Tie-Up
- Agrarian Livelihood Program
- Integrated Cotton Financing Program (ICFP)
- Irrigation Pump Acquisition Program (IPAP)
- Industrial Forest Plantations (Sector) Projects
- Fisheries Sector Program (FSP)

2. DEVELOPMENT BANK OF THE PHILIPPINES (DBP)

- Small-Scale Irrigation Systems for Rice Farmers
- Special-Agriculture, Small and Medium Industries Lending (A- SMILE)
- Industrial Guarantee and Loan Fund (IGLF) Program
- Cattle Financing Program
- Overseas Economic Cooperation Fund - ASEAN-Japan
  Development Fund (OECF-AJDF)
- Industrial Investment Credit Project (IICP)
- Industrial Restructuring Project (IRP)
- Cottage Enterprise Finance Project (CEFP)
- Asian Development Bank III Development Bank of the Philippines
  Project (ADB III DBP)

3. DEPARTMENT OF AGRICULTURE (DA)

- Livelihood Enhancement for Agricultural Development (LEAD) Program
- BAI: Multi-Livestock Dispersal Loan Program
- CDLF-BANGKOOP: CRB Capital Infusion Program
- CDLF-BANGKOOP-SANDUGUAN: Rice Seed Production Project
- CDA: Cooperative Development Loan Fund

TABLE 1 *(continued)*

- CDA: Cooperative Marketing Project
- CDA: Samahang Nayon Support Project
- Development Assistance Program for Cooperatives and People's Organizations (DAPCOPO)

4. TECHNOLOGY AND LIVELIHOOD RESOURCE CENTER (TLRC)

- Agro-Industrial Technology Transfer Program (AITIP) - Export Industry Modernization Project II
- Bagong Pagkain ng Bayan - Guarantee Fund for Local Government Units (BPnB-CALF)

5. PALAWAN INTEGRATED AREA DEVELOPMENT PROJECT OFFICE (PIADPO)

- Palawan Integrated Area Development Project

6. AGRO-PROCESSING AND MARKETING PROJECT OFFICE/NATIONAL FOOD AUTHORITY (AMPO-NFA)

- Private Sector Modernization Program
- Thresher Amortization Program

7. DEPARTMENT OF TRADE AND INDUSTRY-BUREAU OF SMALL AND MEDIUM BUSINESS DEVELOPMENT (DTI-BSMBD)

- Tulong sa Tao Program (First and Second NGO Microcredit Project)

8. PHILIPPINE COCONUT AUTHORITY/UNITED COCONUT PLANTERS BANK (PCA-UCPB)

- Countryside Economic Development Program

9. NATIONAL LIVELIHOOD SUPPORT FUND/OFFICE OF THE PRESIDENT

- NLSF-Wholesale Lending Program
- Bagong Kilusang Kabuhayan at Kaunlaran-Expanded Conduited Guaranty and Lending Program: Kabuhayan sa Nayon

TABLE 1 (continued)

- Bagong Kilusang Kabuhayan at Kaunlaran-Expanded Conduited Guaranty and Lending Program: Balikatan sa Kabuhayan

10. PHILIPPINE FISHERIES DEVELOPMENT AUTHORITY (PFDA)

- Northern Palawan Fisheries Development Project

11. QUEDAN GUARANTEE FUND BOARD (QGFB)

- QGFB-Comprehensive Agricultural Loan Fund (QGFB-CALF) Guarantee Program/Quedan Financing for Allied Products
- Quedan Financing for Grains Businessman
- Quedan Financing for Food Market Retailers
- Quedan Financing for Farmers' Groups
- Quedan Financing for Food and Agricultural Marketing Enterprises

12. GUARANTEE FUND FOR SMALL AND MEDIUM ENTERPRISES (GFSME)

- GFSME-Comprehensive Agricultural Loan Fund (GFSME-CALF) Guarantee Program
- The Guarantee Fund for Small and Medium Enterprises
- Lease-Purchase Guarantee Facility formerly the Farm Machinery Dealer Discount Line Facility Program
- Livecor-GFSME Guarantee Facility
- Guarantee for Agricultural Investments (GAIN)
- Cooperative Credit Guarantee System (CCGS)

13. CROP INSURANCE CORPORATION (PCIC)

- PCIC-Comprehensive Agricultural Loan Fund (PCIC-CALF) Guarantee Program
- PCIC-Rice and Corn Insurance Program
- PCIC-Special Revolving Trust Fund

Sources: Agricultural Credit Policy Council, Development Bank of the Philippines and Land Bank of the Philippines.

The change in credit policy over the last decade was, of course, part of the general effort to restructure the economy. To ease the pain associated with the restructuring, the government secured financial assistance from multilateral institutions, specifically the World Bank and the Asian Development Bank (ADB). Part of the assistance are relending programs and policy conditionalities that bind the government to pursue the programs and projects it decides to institute. These are the Agricultural Loan Fund (ALF) and its successor, the Countryside Loan Fund (CLF), Industrial Guarantee Loan Fund (IGLF); Industrial Investment Credit Project (IICP) and its successor, the Industrial Restructuring Project (IRP), Tulong sa Tao Self-Employment Loan Assistance (TST-SELA) and its successors, the First and Second NGO Microcredit Projects, and the Fisheries Sector Program (FSP). This subset of credit programs is referred to as *policy-based lending programs.*

This paper reviews and examines the special features of policy-based lending programs and policy conditionalities, as well as their impacts on the various players in the credit markets.

EMERGENCE OF POLICY-BASED LENDING PROGRAMS

Special credit programs emerged from the government's concern that the formal credit markets had left out certain sectors of society such as small farmers and enterprises and even key industries that have been deemed vital to the development of the country. The banks' aversion to lending to small borrowers is not without a basis. First, the transaction cost of lending to small borrowers is a disproportionately high percentage of the amount lent. Second, in the event of loan default, foreclosure cost can easily exceed the amount to be retrieved from small borrowers. And lastly, small borrowers usually have very limited tangible and marketable assets, and in the event of external shocks that affect the viability of their projects, they are likely to default on their loans. Therefore, given their limited supply of loanable funds, banks prefer to lend to large, well-established borrowers.

The absence of a capital market is also another reason for government's intervention in the credit market. The financial system has long been dominated by a banking system that concentrated more on short-term loans, losing sight of the fact that medium- and long-term funds are very much needed by industries to expand and improve their productive capacity. The banks' aversion to granting medium- and long-term loans is, of course, not surprising. The Philippine economy had frequently been subjected to crises and wide swings in inflation rates. The uncertainties which these created increased the risk of granting medium- and long-term loans. And this was compounded by the inability of banks to attract enough long-term deposits, for the same reason that depositors regarded long-term deposits as risky financial instruments. Given all this, therefore, it would be very difficult for banks to undertake term transformation if the economy is highly unstable.

Direct intervention in the credit market is only one of the instruments being used by the government to promote certain sectors of the economy. Fiscal incentives such as tax and tariff exemption, accelerated depreciation, etc., have long been offered to highly favored sectors. Some of these incentives are embodied in the Investment Codes, while others are in special charters attempting to address the concerns of specific sectors such as cooperatives, small enterprises, rural banks, etc. The expenditure policy of the government has also been used as one of the intervention instruments. The kinds and location of infrastructure projects define the sectors that should be favored. For instance, farm-to-market roads, and irrigation and postharvest facilities are intended to improve the profitability of farm enterprises.

While fiscal incentives and expenditure policy can improve the profitability of a business enterprise, they do not address the liquidity constraint confronting many who would like to start or expand their business. Under this situation, the fiscal incentives and expenditure policy can even worsen income distribution because those who have the necessary financial resources can readily exploit the opportunities accorded by fiscal incentives. Even large enterprises will miss a lot of income opportunities by foregoing expansion plans due to the lack of long-term funds.

The perceived market failure has prompted the government to intervene in the credit market to relax the liquidity constraint of certain sectors who are supposed to benefit from the fiscal incentives and expenditure policy. However, over the years this aspect had been overshadowed by political considerations. Politicians had found in credit a way of distributing political patronage without spending their own money for it. Thus, many concessional credit programs sprouted, catering to a narrow group of beneficiaries such as tobacco farmers in northern Luzon and corn farmers in southern Mindanao. Special credit to cottage industries and small enterprises which comprise a large segment of the population can also be included here.

The establishment of a credit program with a particular constituency was a way of delivering a message to credit beneficiaries that political leaders were looking after their needs. In the process, the importance of a good expenditure policy was forgotten. What is worse is that credit programs came to be regarded as substitutes for structural deficiencies such as inadequate infrastructure, lack of competition in the banking system, or as instruments to neutralize the negative impacts of certain policies, e.g., price controls imposed on certain commodities and a tariff structure that penalized certain sectors. The demand for special credit programs seemed to have overshadowed the need to deal squarely with structural deficiencies and to abolish policies that reduce the profitability of certain economic activities.

The failure of previous special credit programs — in the sense that they had very high default rates and did not reach the targeted beneficiaries — had been criticized by various sectors including donor agencies (Lamberte and Lim 1987). This came at a time when structural adjustment came into vogue, increasingly exerting pressures on agricultural and industrial sectors to become competitive. It was felt that the financial sector also needed restructuring.

The primary objective of the financial sector restructuring in the 1980s was to make the sector efficient in mobilizing and allocating funds to the most productive enterprises. This required, among others, the removal of interest rate ceilings and concessional lending. However, it was felt that in the process of reorienting the financial sector, a large segment of borrowers who could not meet the stringent criteria of banks would still be left unserved by the banking system. The 1983-84 economic crisis further complicated the matter because it led to substantial disintermediation. Thus, under this condition, credit programs were felt by the government to be even more important to augment the funds of the domestic financial system and make the economy going again.

The design of recently implemented credit programs took into account the objective of financial sector restructuring and the lessons of past credit programs. They are now based on assumptions different from those applied in previous credit programs. First, it is now widely accepted that the end-users' main concern is access to credit, not the price of credit. In other words, end-users are willing to pay the market rate of interest on loans. Second, financial institutions would lend to a diverse set of borrowers including those previously left out if they had enough financial incentives. In other words, the spread which they could realize from lending should be commensurate to the cost and risk of lending. This implies that any credit program should not fix the spread that lending conduits may realize. Third, government financial institutions do not have to compete with private financial institutions in reaching out to end-borrowers. This means that they should find a niche in the financial markets that would be complementary to the functions of private financial institutions (PFIs). And lastly, some features of the informal credit markets could now be incorporated in the design of credit programs to ensure their success.

Multilateral institutions, specifically the World Bank and the Asian Development Bank (ADB), are the main sources of funds for the credit programs. These institutions have an unqualified agreement with the government to see to it that the credit programs do not in any way, introduce distortions but rather strengthen the government's resolve to introduce market-oriented reforms.

The involvement of multilateral institutions in designing credit programs is crucial. Policy reforms which the government has always wanted to institute have been incorporated in externally funded credit programs. Since releases of funds by multilateral agencies have been contingent upon compliance with the required policy reforms, policy reversal in the future becomes a remote possibility. This benefits policymakers whose long-term interest is to see their policy decisions preserved and given enough time to yield positive results.

OBJECTIVES OF POLICY-BASED LENDING PROGRAMS

Policy-based lending programs have varying specific objectives — promote the expansion of cottage, small and medium enterprises, support the growth of the agricultural sector, diversify the sources of income of target beneficiaries, etc. In general, policy-based lending programs have two underlying major objectives: one is to make credit available to target beneficiaries, and the other is to institute much needed reforms.

Although policy-based lending programs can still be considered directed credit programs in the sense that they define certain target beneficiaries, they now target a much broader set of beneficiaries. This contrasts with other special credit programs with sharply targeted beneficiaries. For instance, the Agricultural Loan Fund (ALF) was made available to the entire agricultural sector without bias to specific commodities, firm/farm size and the location of borrowers. The Industrial Guarantee and Loan Fund (IGLF) did the same for the nonagricultural sector, except for a limit on firm size, i.e., it caters only to small and medium enterprises. The First NGO Microcredit Project, meanwhile, had a broader set of beneficiaries for it took care of the credit needs of much smaller enterprises, i.e., cottage industries and microenterprises. The Industrial Investment Credit Project (IICP) is the counterpart of IGLF but focused on large enterprises.

The sequels to some of the programs have an even broader set of target beneficiaries. In the case of the Countryside Loan Fund (CLF), the successor of the ALF, the facility has been made available not only to the agricultural sector but to all sectors in rural areas. It now overlaps with some of the target beneficiaries of the IGLF and the Industrial Restructuring Project (IRP). In the same manner, the target beneficiaries of the Second NGO Microcredit Project have been broadened to include those engaged in agricultural production, whereas the First NGO Microcredit Project limited itself only to nonagricultural activities.

As far as target beneficiaries are concerned, therefore, the policy-based lending programs can be considered general rather than specialized credit programs. An exception perhaps to this is the Fisheries Sector Program (FSP), which has more focused target beneficiaries. What appears to be the binding constraint to the implementing agency, LBP, is the inclusion in the credit program of areas where LBP does not have extension offices or where its Integrated Rural Financing (IRF) program is not operating. This problem was overcome when LBP was allowed to accommodate potential FSP beneficiaries in areas not included in the priority regions. Thus, even with sharply focused credit programs like the FSP, a certain flexibility in defining target beneficiaries was introduced in the course of implementing the project.

The policy reform objective components of the credit programs may be classified into two types: credit-related and macro policy-oriented. Credit-related policy reform objectives of credit programs include those that lead to changes in the features of the programs such as broadening the target beneficiaries, expanding the set of lending conduits, and giving more responsibility and financial incentives to lending conduits. On the other hand, the macro policy reform objectives of the credit programs include support for the market-oriented interest rate policy, facilitation of the conversion of government financial institutions into wholesale credit institutions, promotion of the regional dispersal of industries, restructuring of the industrial sector, and environmental protection.

Donor agencies which are now concerned with the environmental impacts of the projects they support, injected into the program/project loans a method of sensitizing financial institutions to environmental concerns by requiring subprojects to comply with applicable laws and regulations of the country environmental protection agency. This requirement is applied more tightly to large-scale subprojects than to small-scale subprojects.

Two projects incorporated policy objectives in a subtle manner. The IICP excluded subprojects in subsectors that received a high level of protection through quantitative restrictions. Its successor, the IRP, further expanded the exclusion list, i.e., by excluding also subprojects in subsectors that have excessive effective protection of 80 percent or over. The effect here is to penalize heavily protected industries by not making a credit facility available to them. This sharply contrasts with the previous policy of providing concessional loans to heavily protected, import-substituting industries. In a somewhat complicated manner, the FSP tries to support the government's policy on environmental protection by encouraging fisherfolk in environmentally degraded areas to embark on nonfisheries related projects so that these areas can be given enough time for resource regeneration.

The implementation of policy-based lending programs has indeed become a complicated matter for implementing agencies because their performance is evaluated on the basis of two criteria, i.e., reaching the target beneficiaries with a high repayment rate and compliance with policy conditionalities. They have very little control over the latter but profoundly affect the former. For instance, DBP thought that it would encounter great difficulty in disbursing the funds under the IRP since many potentially creditworthy borrowers were still highly protected.[1] The tariff reform effected in 1991 drastically changed the situation, but this change was not motivated by the conditionality of the project. Rather, political leaders thought that it was the right time to seriously liberalize trade and expose domestic industries to international competition.

1. The original conditionality of the World Bank was that DBP should not lend anymore to highly protected industries. The government objected to this because it would sharply reduce the lending operations of DBP considering that there were only a few subsectors that were not highly protected during the loan negotiation. The compromise arrived at was for DBP not to use the IRP funds for on-lending to highly protected sectors.

CHOICE OF IMPLEMENTING INSTITUTIONS

Many of the special credit programs that existed in the past were implemented by various government institutions. Many of these institutions were not financial entities but line agencies and bureaus or subsidiaries of line agencies taking on credit functions such as loan approval and collection. As mentioned earlier, many of them are still around. But enmeshed as they are in bureaucratic red tape and saddled by heavy administrative cost and the lack of skills in managing credit programs, special credit programs have not been up to par in performance.

Unlike other special credit programs, policy-based lending programs are being implemented by government-owned financial institutions (GFIs), such as LBP and DBP. One of the objectives of these lending programs is to support the government policy of converting the GFIs into wholesale banking institutions that would later on play a big role in mobilizing long-term funds and in giving term loans. One previously important function of the Central Bank (i.e., the management of special credit programs), has been transferred to the GFIs. The government decided in 1987 that all externally funded credit programs should be implemented and managed by the GFIs.

There are advantages to having GFIs implement and manage lending programs. First, the programs can benefit from scale and scope economies since these institutions are in the business of lending. Second, lending programs are being managed by professional bankers who know the credit markets better than bureaucrats. Third, the credit programs are less subject to political interference because transactions of GFIs are more transparent than those of regular government agencies. Moreover, GFIs are now evaluated on the basis of their balance sheets and income statements.[2] And lastly,

2. During the dictatorial regime of Marcos, DBP gave many loans to highly favored corporations upon the intercession of top politica leaders. Many of these so-called "behest loans" turned out to be nonperforming, eventually causing the collapse of DBP. The bank has since been rehabilitated and some provisions in its charter were amended to protect it from any political interference. The Aquino administration respected the independence of DBP, and the present administration of President Ramos will likely continue this policy.

GFIs are more flexible than regular government agencies and can readily respond to a changing environment.

There are some improvements in the way the programs are being implemented by the GFIs. The GFIs have applied certain criteria in accrediting participating financial institutions (PFIs).[3] Their criteria focused on the financial soundness and quality of management of financial institutions. Accordingly, this encouraged interested financial institutions to shape up in order to qualify for the credit facility. This is necessary because PFIs are given more responsibility in evaluating and approving individual subloans. Ceilings on subloans have been greatly simplified since the GFIs are subject to the regulation on single borrower's limit.[4] More importantly, the move toward wholesaling of loans by GFIs has considerably improved their financial performance. They can now achieve economies of scale and reduce costs in monitoring subloans since they deal only with a few PFIs. Also, their risk exposure is now limited to those subloans which they provide to PFIs. In the past, concentrating on retail lending exacted heavy costs on GFIs.

The use of lending conduits also appears to be advantageous to end-borrowers. The availability of several branches of PFIs in rural areas has considerably reduced the transaction cost to borrowers.

By implementing and managing credit programs, GFIs have substantially increased their capacity to respond to varying credit demands because they now manage a diversified portfolio of credit programs that can be made available to different types of borrowers. More specifically, both DBP and LBP now have lending facilities for small, medium and large borrowers.

3. PFIs initially resisted the accreditation procedure followed by GFIs and the idea of refinancing a loan under a specific credit program with GFIs because these would put them in a less competitive position with GFIs and because of the possibility that GFIs would draw to their side PFIs' good clients. These fears were allayed when it became clear to PFIs that GFIs would move away from retail lending and concentrate instead on wholesale lending especially when it came to externally funded credit programs.

4. There is a law prohibiting any financial institution from lending to any single borrower more than 15 percent of their unimpaired capital.

The only dividing line between DBP and LBP is that the former services the nonagricultural sector while the latter services the agricultural sector. But recent developments suggest that such a dividing line is blurring since both are now practically servicing the agricultural and nonagricultural sectors, albeit in varying degrees.

An exception to the general observation cited is the NGO Microcredit Program which is directly managed by the Department of Trade and Industry (DTI). The creation of the Provincial and Regional Fund Management Committees with corresponding loan approval authorities has greatly simplified the loan appraisal and approval process. Nonetheless, DTI had to hire several financial analysts to process loans in all provinces of the country. Because of the salary structure for government employees embodied in the 1989 Salary Standardization Law, DTI encountered difficulties in recruiting capable financial analysts. As expected, those who accepted the job were relatively inexperienced. The problem of hiring inexperienced financial analysts was compounded by the lack of banking experience of their direct supervisors who were bureaucrats.

The main reason for having DTI manage the NGO Microcredit Program is that GFIs do not possess yet the necessary expertise to grant small loans to small borrowers through informal channels, e.g., NGOs. This may no longer be true now since LBP has been managing the IRF since 1989. Under the IRF, LBP has been lending to small rural borrowers through formal and informal channels. In fact, the FSP is riding on the coattails of this approach to deliver credit to the program's target beneficiaries. The increasing involvement of LBP in nonagricultural projects fits well into the requirements of the NGO Microcredit Program which is supposed to cater to the credit needs of cottage industries and small enterprises. Of course, DBP is another candidate. It is gaining more experience in lending to small- and medium-scale industries since management fo the IGLF was transferred to it.

CHOICE OF LENDING CONDUITS

As mentioned, the implementing agencies only serve as wholesalers of credit using conduits to reach the ultimate target beneficiaries. Each credit program has its own criteria for accrediting lending conduits (also called participating financial institutions). In general, however, the major criteria, i.e., those that pertain to the financial soundness of conduits, seem to be the same for all policy-based lending programs. Some programs have added accreditation criteria that would make it difficult for some financial institutions to become eligible conduits even if they are financially sound. For instance, the IICP and its sequel, the IRP, require that participating financial institutions have a track record in term lending because these credit facilities were meant to meet the long-term capital requirements of end-users. Admittedly, only a few banks and nonbank financial institutions in the country have that track record. The required minimum subloan size of these credit facilities also discriminates against small lending conduits.

The NGO Microcredit Program stands out differently from the rest of the lending programs in terms of choice of conduits. It is being implemented by a nonfinancial institution, the DTI, and uses only nonfinancial institutions, i.e., NGOs, as lending conduits. The accreditation criteria seek to distinguish institutionally and financially strong NGOs from weak ones to ensure the viability of the program. Experience in lending and a good repayment record were other important accreditation criteria because the program was meant to reinforce the existing lending programs of NGOs and not to entice NGOs that are not engaged in lending to venture into it. This criterion reduces the exposure of the project to moral hazards and protects it from the so-called "instant" NGOs, i.e., NGOs created mainly to tap the credit facility.

The FSP, on the other hand, utilizes both formal institutions (i.e., banks) and informal institutions (i.e., NGOs) as lending conduits.[5] However, the

5. Note that NGOs including cooperatives, though formally registered, are classified as informal lending institutions because they are not subjected to more rigid rules and regulations applied to banks and nonbank financial institutions.

active involvement of their branches and extension offices in retailing loans under the FSP facility has put lending conduits in a less competitive position. Clearly, the retailing function of GFIs conflicts with their wholesaling function at the expense of PFIs. LBP is now trying to change its approach as far as the FSP is concerned to avoid competing with lending conduits.

Except for the NGO Microcredit Project, financial institutions may participate in all of the projects discussed in the previous section provided they satisfy the accreditation criteria for each project. Several PFIs have in fact opted to participate in only a few projects even if they satisfied the criteria because they thought that they did not have a sufficient number of qualified clients for the projects concerned.

Donor agencies and the government do not play a direct role in selecting lending conduits. If ever particular financial institutions are identified in the project document, they appear merely as part of an illustrative list. However, they do approve the accreditation criteria to be used by implementing agencies. In the case of the First NGO Microcredit Project, ADB required the implementing agency to apply accreditation criteria that were more rigid than those used by the TST-SELA Project, but later consented to relax them under the Second Microcredit Project to accommodate more NGOs in remote areas.

The number of lending conduits for the various projects has been changing over time. Some projects have experienced a steady increase in the number of lending conduits, while others have experienced a decline. The reasons why some lending conduits dropped out of the lending programs are varied. Some voluntarily stopped their lending under the credit programs due to the insufficient number of clients. Others were terminated by the implementing agencies because of their deteriorating financial position. Most of those who belonged to the first group were commercial and thrift banks, while most of those who belonged to the second group were rural banks. The number of rural banks decreased significantly from more than one thousand in 1985 to about eight hundred in 1991 due to bank failures. Among the remaining rural banks, only about three hundred are in good financial condition. The rest have to undergo a rehabilitation program.

TERMS OF THE LOANS TO END-USERS

The policy-based lending programs finance only a certain proportion of the total cost of subprojects, with the rest being shared by PFIs and end-users. Thus, PFIs do not just serve as lending conduits but also lend their own funds as their contribution to the total cost of subprojects. On the other hand, the contribution of end-users may be in cash or in kind such as land, building equipment or any tangible assets useful for the subprojects. The required financing mix varies among policy-based lending programs. Their share in the total cost of a subproject (which is represented by implementing agencies) ranges from 60 to 90 percent and varies inversely with the total cost of the subproject. The loan proceeds may be used to finance production, working capital, and fixed asset acquisition (usually with the exception of land). Term loans are available in these credit programs.

The selection of subborrowers is entirely left to PFIs or lending conduits provided subborrowers belong to the target beneficiaries defined by the lending programs. Requiring loan collateral is also left to the discretion of PFIs. It has been observed that PFIs have invariably required collateral on subloans. This is common to all policy-based lending programs including the FSP and the NGO Microcredit Project since PFIs and conduit NGOs bear the credit risk for subloans.

There are ceilings on individual subloans that vary among programs. The IICP and the IRP have higher ceilings because they cater to large enterprises, whereas other programs have much lower ceilings because they are supposed to address the needs of cottage, small and medium enterprises. Aside from the stipulated ceilings, the single borrower's limit on PFIs also applies. For larger credit programs such as the IRP, loan syndication between two or more PFIs is allowed whenever the amount of the loan requested by a single borrower exceeds the single borrower limit.

There are limits on the amounts which PFIs can freely grant as loans to subborrowers. Beyond these limits, loans need independent appraisal by implementing agencies or donor agencies, depending on the amount of subloan being requested. In the IRP, for example, subloan requests of between US$8 million and US$15 million need an independent appraisal from DBP. Beyond this, World Bank independent appraisal is required.

The policy-based lending programs make available to subborrowers short-, medium- and long-term loans. However, the determination of the tenor of the subloans is left entirely to lending conduits. For the IICP and the IRP, only medium- and long-term subloans are available because these programs were designed primarily for term loans.

Loan repayment could be lump sum in the case of short-term loans, or staggered in the case of medium- and long-term loans. For other programs such as the FSP and NGO Microcredit Program, lending conduits still prefer to extend short-term loans due to the risk involved in lending to small borrowers with very little track record in borrowing from formal institutions.

Lending conduits are free to charge whatever is the prevailing market interest rate for a particular loan. This is consistent with the policy reforms supported by these lending programs. What is interesting in these programs is that subborrowers have the option to pay fixed or floating interest rates on their subloans. The introduction of the floating rate on loans started with the ALF, and this was carried out subsequently by externally funded projects. This is perhaps one of the most important accomplishments of the policy-based lending programs. Other special credit programs directly funded by the government also carry this feature.

MONITORING

Fairly developed monitoring systems are usually included in the design of policy-based lending programs. The implementing agency usually sets up an office and/or mechanism to carry out the monitoring system. In all cases, the multilateral donor agencies involve themselves in monitoring the progress of the projects. Aside from receiving reports from implementing agencies, they also conduct random field visits as part of the verification process. But their monitoring does not in any way duplicate the regular monitoring being done by implementing agencies.

The transfer to GFIs of the credit programs and, hence, the monitoring units made possible the exploitation of economies of scale and scope. Thus, GFIs now employ fewer personnel solely dedicated to a particular project than the old practice of lodging monitoring units in various government agencies.

The monitoring system basically addresses two issues: (1) whether the credit program follows the procedures and fulfills the policy conditionalities outlined in the project document, and (2) whether the project has reached the target beneficiaries. Unlike previously directed credit programs, the procedural aspects of the policy-based lending programs are now much simpler. For one, most of the responsibilities associated with the project have been downloaded to the PFIs or lending conduits which are given much wider discretion in the selection of their borrowers. Further, interest rates on the loans of policy-based lending programs are no longer fixed. From the administrative point of view, therefore, there are fewer indicators to be monitored. In the previous credit programs, considerable efforts were exerted by implementing agencies in determining whether lending conduits did not charge interest rates beyond the prescribed ones.

There are basically three instruments used in verifying whether the loans reach the intended beneficiaries. One is the periodic report of end-users submitted by lending conduits and PFIs to the concerned implementing agency. The second is the one used during requests for reimbursement or release of funds to lending conduits or PFIs. In this case, the implementing agency reviews the loan applications recommended by lending conduits for funding to determine whether the borrowers are the intended beneficiaries. It bears noting that the implementing agency does not duplicate the loan approval process conducted by lending conduits and that the donor agency periodically reviews the use of the loan proceeds through reports submitted by the implementing agency.

The third instrument is the end-user verification survey. This is not much of a problem for credit programs such as the IRP that are earmarked for large industries because there are only a few borrowers. But for credit programs that are made available to a large number of small and medium borrowers (e.g., NGO Microcredit Program), the end-user survey is admittedly a tedious process. Some credit programs require periodic surveys, while others need to be monitored only once or twice during the implementation period. Aside from the end-user survey, the implementing agency also does random ocular inspection on a more frequent basis of some projects as part of the end-user verification process.

The implementing agencies noted that the target beneficiaries could be more effectively reached under the policy-based lending programs than in the previous special credit programs because of their broader set of target beneficiaries and the greater leeway for lending conduits to select their borrowers and determine the loan contracts. All this effectively make it easier for the implementing agency to monitor policy-based lending programs.

IMPACTS OF POLICY-BASED LENDING PROGRAMS

On the Government

Policy-based lending programs were put in place to support policy reforms. Resistance to policy change from various quarters such as politicians, lending conduits and end-users was felt by the government especially with the very first program, the ALF, which introduced wide-ranging policy reforms. Despite this, the programs seemed to have succeeded in implementing the desired policy reforms. This could be attributed to three factors. First, the policy reforms were tied up with the loan program, and releases of funds by the donor agency to the government were made contingent upon compliance with the loan covenant. The lack of credit supply, in general, and of foreign exchange, in particular, compelled the government to be very diligent in implementing the policy reforms. Many have opined that the government could have easily reversed its policies upon meeting strong pressure from various quarters were it not for the loan covenant. Second, the implementation period of the policy-based lending programs was sufficiently long to allow all players to adjust to the new environment. For instance, many potential borrowers shied away from the ALF during its initial phase because of the floating rate feature of the loan. Eventually, borrowers learned to adapt to the new way of pricing credit. Third, the number of constituents for the new policy regime seemed to have been underestimated. Those who were adversely affected by the new policy regime were few but very articulate in voicing out their concern. However, some of them were not necessarily inflexible as they themselves later on became subscribers to the credit programs either as lending conduits or end-users.

Under the policy-based lending programs, the government directly or indirectly (through government-owned financial institutions) obtained loans denominated in foreign currencies from donor agencies, relent them to end-users through lending conduits in domestic currency, and repaid donor agencies in foreign currencies.[6] Invariably, the government shouldered the exchange risk of these foreign loans.[7] The experience with the ALF provided an important lesson to the government in handling exchange risk. The ALF program had a 100 percent repayment rate, yet the government (represented here by the Central Bank) incurred huge foreign exchange losses because the passed-on rate or the interest rate charged by it did not properly incorporate the exchange risk. This experience led the government to revise the formula for determining the exchange risk premium. The formula presently used in all policy-based lending programs allows the exchange risk premium to vary positively with the weighted average interest rate (WAIR) on time deposits, i.e., the exchange risk premium increases if WAIR increases. The Department of Finance sees to

6. Note that some of the credit programs make available to end- users foreign exchange for the importation of equipment. However, end-users pay the loans in local currency.

7. Some earlier programs that passed on the exchange risk to the end-users did not flourish, especially since the economy was subjected to a series of discreet currency depreciations in the 1980s.

it that all loan covenants with multilateral donor institutions adhere to this formula.

On Implementing Agencies

As already mentioned, externally funded lending programs are now being implemented by the GFIs, specifically DBP and LBP, with the exception of the NGO Microcredit Program. Since the GFIs have just started mobilizing deposits on a competitive basis,[8] the transfer to them of externally funded projects has considerably improved their financial position and facilitated their transformation from retailers to wholesalers of loans. Given the diversity of credit programs that they now manage, the GFIs can practically offer credit facilities to borrowers of any size and projects through PFIs. Since they are lending on a wholesale basis, they can exploit economies of scale and at the same time reduce their exposure to credit risk through the system of accreditation of lending conduits.

GFIs' (or DTI's in the case of the NGO Microcredit Program) lending rates to lending conduits allow them to realize a comfortable gross margin of two to three percentage points, which is more than enough to cover their administrative cost. This margin is invariant to the changes in the WAIR on deposits.

On Lending Conduits or PFIs

Lending conduits bear the credit risk of any loan they give to end-users under all the policy-based lending programs. Since lending conduits are given the freedom to apply their own criteria in approving loan applications over and above the criteria set by the individual programs, they have been able to reduce their risk exposure. All, except the NGO Microcredit Program, have high repayment rates. In addition, the absence of a cap on the re-lending rate has allowed them to charge a rate on loans that is reflective

8. GFIs were from the very start dependent on government deposits. In 1987, the government changed its policy toward GFIs, urging them to accelerate their mobilization of private savings. At present, GFIs offer very competitive rates on deposit instruments.

of their risk exposure and the administrative cost in handling the loan accounts of target beneficiaries.

There is considerable variation in the gross margin realized by lending conduits across types of policy-based lending programs. Under the IICP and the IRP, this margin ranges between three and six percentage points; under the ALF and the IGLF, between five and eight percentage points; and under the NGO Microcredit Program, it stands at around 11 percentage points. Clearly, gross margins vary inversely with the size of borrowers being addressed by the lending programs (Figure 1). This may be due to the higher risk and administrative cost involved in lending to small borrowers as opposed to large borrowers. Certainly, these spreads give lending conduits a reasonable net profit from these lending programs.[9]

On End-Users

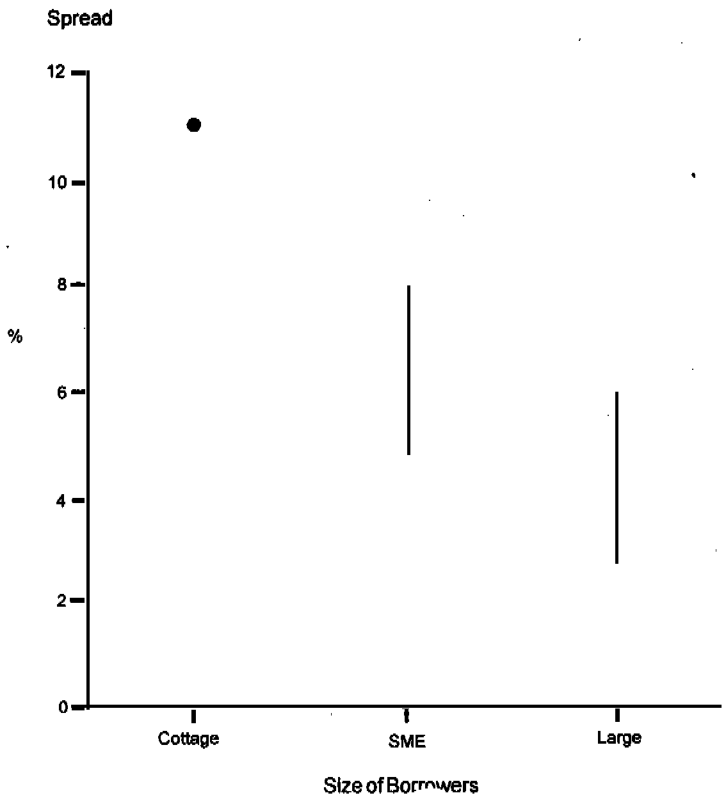
Perhaps the most important impacts of policy-based lending programs on end-users have to do with access and the cost of credit. However, information on this issue is quite limited because, among the policy-based lending programs reviewed, only the ALF and the First NGO Microcredit Program have so far conducted end-user verification surveys. For other programs, case studies and impressions of officers of implementing agencies are the main sources of information.

According to DTI's report, the end-users of the NGO Microcredit Program belong to the so-called "nonbankable" types with practically very limited assets that could be used for collateral and very low household income. The interest rates they pay, though pegged to the prevailing commercial rate in the area, is much lower than those prevailing in the informal credit markets.

In contrast, the end-users of the ALF, the IGLF and the IICP belong to the "bankable" types with sufficiently mortgageable assets. In other words, most of them already have access to bank credit. In fact, most of their loans were used for the expansion of existing projects. One might hasten to

9. FSP is the exception to this statement since LBP only breaks even in its operations.

FIGURE 1
Gross Spread by Size of Borrowers



conclude here that the credit programs are not necessary in that most of the borrowers already have access to bank credit. However, one should take a closer look at the kinds of loans obtained by borrowers from special credit programs. Many of those with access to bank credit sought medium- and long-term loans to expand their existing business. However, banks could only provide them with short-term commercial credit.[10] Thus, end-users resorted to borrowing from the special credit facilities since they provided medium- and long-term loans that could be used to finance the acquisition of fixed assets and permanent working capital. In many cases, end- users learned of the special credit facilities from their bank.

The market rate of interest on special credit programs does not seem to be a hindrance to end-users. In fact, most of these facilities run out of funds way ahead of their scheduled completion, necessitating the creation of successor credit programs. The option to pay fixed or floating rate also made these credit programs attractive to end-users.

On the General Credit Policy Environment

There is no doubt that policy-based lending programs have made their greatest impact on the general credit policy environment in the country. Although there still exist several special credit programs, only a few of them carry concessional rates. These are small credit programs that hardly created a distortion in the credit market. The charging of the market rate of interest on special credit programs is a practice now widely accepted.

The policy-based lending programs have also facilitated the transformation of GFIs into wholesalers of loans. In the past, GFIs retailed loans and competed with private financial institutions in tapping funds from

10. At present, banks are constrained from granting medium- and long-term loans because most of their funds have shorter maturities. As of December 1991, time deposits comprised only 32 percent of the total volume of deposits. The rest were demand and savings deposits. Of the total volume of time deposits, only 29 percent have maturities of more than two years. Given the experience in the 1980s when many depositors preterminated their time deposits in times of crisis, banks are now averse towards term transformation. They are now merely matching the maturities of their assets and liabilities.

special credit programs and in relending them to end-users. Now, they have found their niche in the credit market, complementing the functions of private financial institutions. Admittedly, GFIs still engage in the retailing of loans, but the share of such loans in their total loan portfolio has been on the rapid decline in the last four years.

On the Effectiveness of Monetary Policy

In the past, the Central Bank managed special credit programs, most of which had rediscounting privileges. Because these loans carried very concessional rates, banks relied greatly on them as sources of funds. The Central Bank could not easily change the rediscount rates or tighten the rediscount window during times of excess liquidity due to strong political pressures. In fact, money supply and, hence inflation, grew very rapidly in the late 1970s and early 1980s when the number of special credit programs rose sharply. Thus, the Central Bank was virtually ineffective in conducting monetary policy.

Prudential regulation was also one of the casualties of having numerous special credit programs managed by the Central Bank. In an effort to reach a large number of beneficiaries targeted by a specific credit program, the Central Bank pushed credit through a large number of banks. And when many end-borrowers could not repay their loans, most conduit banks refused to pay their loans with the Central Bank on the ground that they were merely responding to CB's request to distribute the loans. This gave rise to the concern that closure of a large number of errant banks could lead to a more unstable situation. Thus, the Central Bank opted to rehabilitate them. In the last 15 years alone, the rural banking system has undergone four major rehabilitation programs, none of which seemed to have succeeded in improving the financial stability of the rural banking system.

The transfer of special credit programs to GFIs proved to be a big relief to the Central Bank because it can now concentrate fully on stabilizing the financial system. In the past five years, the Central Bank had been constantly changing its rediscount rate to reflect market conditions, at times tightening the rediscount window when it wanted to slow down the growth of money supply. This brings up the issue of whether the availability of credit from policy-based lending programs now being managed by GFIs has weakened the effectiveness of monetary policy. This weakening will occur if the Central Bank's efforts to contain the growth of credit in general and, hence, money supply through the rediscounting window or open market operations are neutralized by the unabated flow of credit from special credit programs. As pointed out earlier, almost all special credit programs including policy-based lending programs now carry market rates of interest. Therefore, a tight monetary policy leading to a rising interest rate could affect the cost of credit including that of special credit programs and could induce some potential borrowers to postpone their investment or business expansion plans.

It bears noting though that there is now better coordination between monetary and fiscal policies after interagency committees have been created to monitor monetary aggregates and the performance of the fiscal sector.[11] As the fiscal agent of the national government and as a manager of international reserves, the Central Bank is the depository of all foreign loans negotiated by the government with donor agencies. During times when the Central Bank finds the need to stem the growth of credit so as not to exceed a certain ceiling in the growth of money supply, it postpones the transfer of funds to the accounts of GFIs with the approval, of course, of the national government. GFIs have cited delays in the receipt of funds for certain credit programs, especially during times when the Central Bank wanted to reduce liquidity in the system.

11. The National Economic and Development Authority, the Department of Finance and the Department of Budget and Management are represented in the Open Market Committee. The Central Bank is represented in the Development Budget Coordination Committee (DBCC) and the Cash Programming and Monitoring Committee (CPMC). The DBCC ensures the conformity and harmony of the Philippine annual budget with the country's overall development plan. On the other hand, the CPMC makes possible closer coordination among various government departments in the release of funds based on the short-term calculation of cash availability. One of its tasks is to ensure that the deficit target of the fiscal sector is not exceeded.

The most recent rehabilitation program for rural banks is now being managed by LBP. The Central Bank that used to handle the program now concentrates on the more substantive aspects of prudential regulations in order to improve the stability of the financial system.

On Sustainable Development

With the increasing concern about sustainable development, policy-based lending programs have incorporated features that would sensitize both lending conduits and end-users to the environmental impacts of the projects being proposed for funding. In particular, proponents of large projects are being required to secure first an environmental clearance certificate (ECC) from the Department of Environment and Natural Resources (DENR) before their loan requests could be approved. Environmental impact assessment study has now become part of the feasibility study conducted by loan applicants. This has made it necessary for PFIs and DENR to expand their capacity to assist end-users in making or evaluate environmental impact assessment studies. This has, of course, increased the cost of doing business for end-users as well as PFIs, but over the long run, this will contribute to sustainable development from which they will benefit.

REMAINING ISSUES

Despite positive developments brought about by policy-based lending programs, some remaining issues should be addressed by policy or closely examined in future research. First, since policy-based lending programs are externally funded, they should have increased the aggregate supply of institutional credit in the country, especially since the large programs are coursed through the PFIs. This does not seem to be the case, however, since the share of the loan portfolio of banks in total assets during the period 1986-1990 was generally lower than in previous years (Table 2). High-yielding Treasury Bills became a very attractive investment instrument during this period, prompting banks to shift a substantial portion of their resources to such instrument. Thus, it is highly probable that the funds drawn

TABLE 2
Loan Portfolio of the Banking System

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total Assets (million pesos)	188,824	218,966	257,128	338,901	391,757	395,139	304,085	330,305	392,054	479,010	608,906
Loan Portfolio (as % of Total Assets)	58%	57%	56%	59%	50%	44%	41%	44%	42%	41%	42%
Investment (as % of Total Assets)	12%	14%	13%	11%	12%	11%	13%	12%	14%	14%	13%

Source: Central Bank of the Philippines

from special credit programs substituted for the banks' own funds that should have been used to service the credit needs of their clients. In effect, therefore, the externally funded policy-based lending programs helped finance the fiscal deficit. Of course, one can argue that the situation could have been worse, i.e., a smaller amount of credit would have flowed to the economy at higher rates of interest, were it not for the additional funds coming from the externally funded credit programs.

Second, the funds of policy-based lending programs have been coursed through lending conduits that have been operating in a less competitive environment. They have therefore extracted some rents from such credit programs. Lamberte (1992) has shown that the banks' spread, i.e., the difference between the lending and deposit rates adjusted for intermediation taxes such as the reserve requirement and the gross receipts tax, increased during the period 1981-1990, and this can be largely explained by the increasing banking concentration. The implication here is that the passed-on rate, i.e., the interest rate charged by GFIs to lending conduits that is keyed to the weighted average interest rate on time deposits has been lower and that the interest rate paid by end-users has been higher than what they should have been under a competitive environment. The policy-based lending programs could have also included reforms in competition policy.

Third, some credit programs especially those that target cottage and small enterprises and are considered "nonbankable," made a conscious effort to use alternative lending conduits, specifically NGOs, that can efficiently deliver credit to such beneficiaries. However, the spread they realized from such programs proved to be very high, leading one to question the alleged comparative advantage of these institutions in delivering credit to the so-called "nonbankable" ones. Although there is a need to continuously look for alternative, nonconventional mechanisms for delivering credit to the so-called "nonbankable" ones, the promotion and nourishing of inefficient credit delivery systems must be avoided. It may be worthwhile for the economy to use the same resources in improving the profitability of the projects of "nonbankable" entities through infrastructure development, and trade and industrial policy that encourage competition, and through further reforms in the banking system such as more liberal bank entry and the strengthening prudential regulations to make the services of the banking system readily available to more clients on a more competitive basis. Moreover, NGOs, except well-established credit unions, either have very little capability or are incapable of mobilizing deposits, making the sustainability of their lending services to target beneficiaries entirely dependent upon the continuation of special credit programs.[12]

And lastly, the availability of special credit programs must have relaxed the credit constraint facing the sectors being targeted, thereby, facilitating their growth. The availability of credit is only one of the factors that determine the growth of the sectors in question. There are other factors such as the general price and trade policies for the sector, the overall stability of the economy, infrastructure support, etc., that could affect the performance of a particular sector. There is also a problem to be engendered in discerning the contribution of the policy-based lending programs to the performance of the targeted sector because these programs have become general rather than specialized insofar as target beneficiaries are concerned. The funds, therefore, have been widely dispersed to a number of subsectors.[13]

Among the programs reviewed above, only the ALF and IGLF have been put in place for some time; therefore, their contribution to the targeted sector can already be determined. However, the economic crisis that struck in 1983-1985 could have blurred the relationship between the availability of credit from these lending programs and the growth of the targeted sector.

As shown in Table 3, the agricultural sector grew at an average rate of 2.1 percent for the period 1985-1990, higher than the average growth rate

12. The first NGO Microcredit Program tried to incorporate a savings and mobilization component but failed miserably. The Second NGO Microcredit Program imposed a stricter procedure by withholding a certain portion of subloans as deposits of subborrowers. This unnecessarily increased the cost of funds to borrowers. Moreover, deposits with NGOs are not covered by the deposit insurance system, thus, making deposits in these institutions very risky. This has made it difficult for NGOs to mobilize voluntary deposits.

13. This was easier to do under the previous special credit programs because they had wider target beneficiaries such as the textile, hog and poultry industry, etc.

TABLE 3

Growth Rate, Loans Outstanding and ALF Loans Outstanding of the Agricultural Sector, 1980-1990

		Loans Outstanding			ALF Outstanding (billion pesos)		
		% of GVA				% of Total	
	Growth Rate %	Nominal	Real	% of Total	Agriculture	Nominal	Agri Loans
1980	4.7	12.7	9.1	15.9	23.1	-	-
1981	3.6	11.6	7.2	12.8	18.7	-	-
1982	0.8	13.4	7.9	13.0	20.1	-	-
1983	-3.4	16.3	8.8	13.7	22.8	-	-
1984	-0.9	11.3	3.9	8.8	9.7	-	-
1985	-1.9	11.1	3.2	11.3	8.4	0.109	1
1986	3.7	14.9	4.1	15.7	10.9	0.291	2
1987	3.2	13.8	3.7	12.6	9.2	0.372	2.7
1988	3.2	16.8	4.2	12.2	9.8	0.881	5.2
1989	2.6	16.0	3.6	8.9	8.2	2.312	14.4
1990	1.9	18.9	3.8	8.8	8.4	2.397	12.7

Sources: Central Bank, Statistical Bulletin, various years;
SGV/Virata & Associates, "Impact Evaluation of the Rural Financial Services Project," 1991;
National Statistical Coordination Board, "National Income Accounts," various years;
IGLF Annual Reports, various years.

of 0.96 percent attained in 1980-1984. The sector grew despite a sharp drop in the real volume of loans going to the agricultural sector that averaged only P3.8 billion during the period 1985-1990, compared to the average for the previous period at P7.4 billion. Consequently, the ratio of agricultural loans to the gross value added of the agricultural sector dropped significantly in the later period. Interestingly, the ALF loans outstanding and their share in the total agricultural loans outstanding of the banking system consistently increased over the years, with 1989 and 1990 witnessing a sharp rise despite deceleration in the agricultural growth rate. Thus, one cannot derive a strong correlation between the agricultural sector's performance and the availability of agricultural credit coming from the ALF. However, one can raise a counter-argument pointing out that the sector could have experienced a worse performance without the ALF considering the increasing share of ALF loans in total agricultural loans.

Table 4 depicts the case for the manufacturing sector. Unlike the agricultural sector, the manufacturing sector seemed to have been favored by credit. Loans outstanding of the manufacturing sector both in real terms and as a percentage of the gross value added for the sector tended to recover after the 1983-1985 economic crisis. The sector's share in the total loans outstanding of the banking system rose to about 40 percent in the last three years. The IGLF loans outstanding generally increased during the period 1980-1990. Their share in the total loans outstanding of the manufacturing sector increased until 1985 but fluctuated thereafter. Again, the relationship between IGLF loans and the performance of the manufacturing sector cannot be discerned from the available data.

One cannot draw a definite conclusion from the findings discussed above. As already pointed out, there were several intervening factors that could have weakened the contribution of policy-based lending programs to the performance of targeted sectors. However, a micro level analysis might give a different picture. For instance, the case studies done for some of the IGLF beneficiaries clearly demonstrate the usefulness of the program to those wanting to expand their business. Likewise, the end-user survey of

TABLE 4

Growth Rate, Loans Outstanding and ALF Loans Outstanding of the Manufacturing Sector, 1980-1990

	Growth Rate %	Loans Outstanding				IGLF Outstanding (billion pesos)	
		% of GVA				% of Total	
		Nominal	Real	% of Total	Manufacturing	Nominal	Mfgr. Loans
1980	-	27.6	19.9	34.6	44.1	0.25	1
1981	2.0	26.8	17.1	29.4	40.9	0.42	1.6
1982	1.6	30.6	17.7	29.5	38.4	0.52	1.7
1983	(0.3)	36.7	19.3	29.9	41	0.65	1.8
1984	(10.0)	33.5	11.7	26.3	25.9	1.04	3.1
1985	(7.9)	23.3	6.6	23.7	16.2	1.46	6.3
1986	1.8	23.4	6.6	24.7	15.6	1.05	4.5
1987	5.6	42.3	11.5	38.8	24.9	0.77	1.8
1988	8.5	56.1	14	40.7	27.1	N.A.	N.A.
1989	6.4	75.4	17	41.9	32.3	2.8	5.0
1990	2.0	88.3	17.7	41	32	5.43	6.1

Sources: Central Bank, Statistical Bulletin, various years;
National Statistical Coordination Board, "National Income Accounts", various years;
IGLF Annual Reports, various years.

the First NGO Microcredit Program shows rising incomes experienced by beneficiaries.

The IICP and IRP have provided large term loans to only a few sectors.[14] However, their impact on the performance of these sectors cannot be determined at this point since these programs have just started. This may be a good subject for future research.

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14. The largest recipients are beverage manufacturing, metal industry, transportation, storage and communication, and food and food products.

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POLICY-BASED LENDING PROGRAMS IN THE PHILIPPINES

The oligopolistic structure in the credit markets occurs from the presence of only a few banks vis-à-vis a greater number of end-users. In this situation, the lending conduits can dictate the price. The market rate in essence is the rate which results due to the presence of restrictions in the entry to the market.

The high level of interest rate in the Philippines was noted as a deterrent to the modernization of the agricultural sector. Dr. Lamberte, however, said that the more crucial issue is the stability of rates rather than the level. Rural borrowers are concerned also with lack of access to credit rather than the level of interest rate. Results of various studies on the rural credit markets have been consistent on this observation.

International agencies are putting conditionalities on credit programs, considering that there is a free market system, because the conditionalities support the reforms towards free market and they want to ensure that the reforms will not be reversed. But sometimes even if the conditionalities have been lifted, government still continues to use donor agencies to push for some policies.

Regarding gender issues in the credit markets, Dr. Lamberte stated that these are being addressed in some credit programs especially those involving the NGOs (e.g., Grameen). However, this is not a binding concern.